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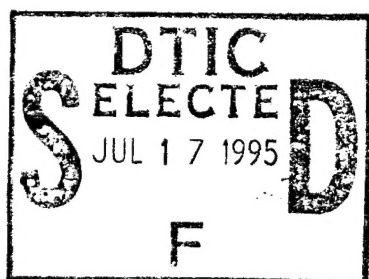
Testimony

Before the Committee on Governmental Affairs

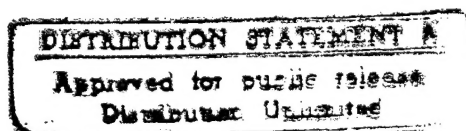
For Release on Delivery
Expected at
10:00 a.m., EDT
Wednesday,
June 22, 1994

NAVY LABORATORIES

Issues Concerning the Naval
Undersea Warfare Center's
Suffolk Facility



Statement of Donna M. Heivilin, Director
Defense Management and NASA Issues, National Security
and International Affairs Division



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the questions you raised concerning the relocation of the Naval Undersea Warfare Center (NUWC)/Norfolk detachment from Norfolk, Virginia, to Newport, Rhode Island. In particular, I will focus on the detachment's March 1992 leasing of a build-to-suit facility in the Norfolk area.

Briefly stated, our work showed that the original 1987 justification for the building did reflect a desire to consolidate existing lease spaces and a growing workload. However, by the time the lease was signed, this growth had begun to overlap with Navy downsizing--including downsizing of the Norfolk detachment. The decision to build a new facility for long-term lease at that time was not a wise one. Other than informal discussions, we found no indication that other options were considered for acquiring space for a smaller detachment. In fact, according to General Services Administration (GSA) officials, the Navy could have canceled the lease even after construction began--a final option that also was not considered. As a result, unnecessary lease costs will be avoided only if tentative arrangements to have the lease taken over by another group are carried out on schedule. In addition to lease costs, the Navy incurred over \$9 million in one-time relocation costs.

I will now discuss our findings and analysis in more detail, beginning with some background information.

BACKGROUND

The Naval Undersea Warfare Center (NUWC)/Norfolk detachment was originally established in 1963 as the Electronics Maintenance Center. After several Navy reorganizations over the years, in 1982 the detachment became a separate command and was designated as the Naval Sea Combat Systems Engineering Station (SEABAT).

SEABAT's workload and staff increased over the years, from 332 positions in 1982 to 810 positions in 1991. However, it continued to be housed in leased space. According to estimates in SEABAT's fiscal year 1991 Strategic Business Plan, staffing was expected to reach over 1,100 by the end of fiscal year 1995. With such expansion, SEABAT began to examine alternatives to multiple leased space locations.

By 1992, SEABAT's original building lease was set to expire. The detachment at first requested approval in 1987 to build a single, multi-story facility to house its operations. The request was rejected by the Chief of Naval Operations, and by mid-1988, the detachment had acquired additional leased space in two other buildings.

In the following year, the Naval Facilities Engineering Command, Atlantic Division (NAVFAC), submitted a request to GSA for the leasing of nearly 280,000 square feet to be occupied by SEABAT, and on July 28, 1989, requested approval from the House Armed Services Committee. The justification indicated that the detachment's existing leases in three separate locations had a

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detrimental effect on its ability to perform its mission. The Committee gave its approval in September 1989. In addition, GSA obtained approval in June 1990 from the Senate Committee on Environment and Public Works for a build-to-order, 20-year lease.

Even as the detachment had been expanding, though, military downsizing had begun in earnest. Under the Navy's consolidation plan submitted to the 1991 Defense Closure and Realignment Commission (BRAC), SEABAT was reorganized under two warfare centers: NUWC (580 positions) and the Naval Surface Warfare Center (250 positions). That part of SEABAT realigned under NUWC was designated the Newport Division, Norfolk detachment.

Under the Navy's 1991 realignment plan, the NUWC/Norfolk detachment was expected to downsize from 580 positions to 300 positions over a 6-year period. The plan also recognized that the only impact of losing 280 positions from the NUWC/Norfolk detachment would be the renegotiation of a lease for less office space.

As part of the 1993 round of base closures, the Navy recommended closing the NUWC Newport Division's Norfolk detachment and moving it to Newport, Rhode Island.

REQUIREMENT FOR NEW BUILDING QUESTIONABLE

During this time of simultaneous base consolidations and expanded leasing plans, there was a great deal of informal discussion regarding the need for the building. However, questions were formally raised only once. In an August 20, 1991, memorandum to the Chief of Naval Operations, NAVFAC requested guidance concerning the need for the detachment's new building in light of (1) BRAC's 1991 recommendations to reduce the NUWC/Norfolk detachment to 300 and (2) overall DOD downsizing. (A copy of the memorandum also went to NAVSEA.)

In September 1991, the Commander, NAVSEA, sent a letter to NAVFAC reassuring NAVFAC that the building was still needed and requesting that the lease acquisition continue as planned. The NAVSEA letter stated that, despite potential Navy workload and position reductions through the next decade, the anticipated impact on personnel and workload levels would be less than originally projected by the 1991 BRAC. The letter stated that NAVSEA expected the total personnel presence at the Norfolk detachment's facility would support the nearly 280,000-square-foot space proposed in the pending GSA lease acquisition. Further, the letter claimed \$1.2 million annually would be gained through increased productivity and more efficient use of equipment by collocating the three leased sites.

Unfortunately, NAVSEA's reassurances as to the continuing need for the facility were written solely by SEABAT personnel. We found no evidence that NAVSEA reviewed or analyzed the assumptions made in the September 1991 letter. In fact, we were told by NAVSEA officials that there was disagreement within NAVSEA as to the need for the building. Based on NAVSEA's reassurances, on October 1, 1991, NAVFAC authorized GSA to proceed with awarding the lease. GSA subsequently asked the detachment to consider extending the lease of the new facility from

15 to 20 years to save the government \$2.5 million in rental costs because the lessor was able to obtain cheaper financing for a longer lease; the detachment agreed.

According to GSA officials, the Navy could have canceled its plan to lease the new facility at any time prior to the March 10, 1992, award of the lease. In this case, GSA would only have been liable to pay the contractor's cost of preparing the proposal. If the project were terminated after the March 1992 award date, GSA and the contractor would have had to negotiate an amount to be paid to the contractor. On March 10, 1992, GSA awarded a 20-year lease to SEABAT I Limited Partnership for a 278,978-square-foot, build-to-suit facility. Construction commenced immediately, with completion anticipated in 14 months. On February 23, 1993, 10 months after construction of the Suffolk facility began, the Navy's Base Structure Evaluation Committee recommended that the NUWC/Norfolk detachment be disestablished and transferred to the NUWC/Newport Division, Newport, Rhode Island. At that time, the \$27-million building was nearing completion.

On July 1, 1993, the Defense Base Closure and Realignment Commission approved the Department of Defense's recommendation to disestablish the Norfolk detachment and relocate its functions, personnel, equipment, and support to the NUWC/Newport Division, Newport, Rhode Island.

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Nearly 2 years elapsed between the initial solicitation to acquire a facility for the detachment and the signing of the lease. We believe that options other than entering into a 20-year lease for a building sized to hold nearly 1,000 people merited greater consideration. Other than informal discussions we found no indication that such consideration occurred after mid-1991, when it had become clear that Navy downsizing and reorganization would affect the size of the NUWC/Norfolk detachment.

We believe that the decision to proceed with the lease was not wise, since it limited the use of other options, such as vacated government space. Short-term lease options could have been used while evaluating such alternatives. Unless the lease is taken over by the other party, the Navy will incur approximately \$24.3 million (1992 dollars) in unnecessary costs, as well as having incurred over \$9 million in one-time costs related to the relocation.

Fortunately, there is a good chance these lease costs will not be wasted. The U.S. Atlantic Command (USACOM) has expressed an interest in using the Suffolk facility. If it occupies the facility as anticipated, no lease costs will be incurred by NUWC after the detachment vacates the building. The transfer of USACOM personnel, equipment, and furnishings is tentatively scheduled to take place in phases during fiscal year 1995, as NUWC vacates the building, and USACOM will assume liability for leasing the building.

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions you now have.

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